



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT OF THE CABINET FOR FAMILIES AND CHILDREN**

**Made as Part of the Statewide Single Audit
of the Commonwealth of Kentucky**

For the Year Ended June 30, 2000

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
WWW.KYAUDITOR.NET**

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELE. (502) 564-5841
FAX (502) 564-2912**

EXECUTIVE SUMMARY
REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT OF THE CABINET FOR FAMILIES AND CHILDREN
FOR THE YEAR ENDED JUNE 30, 2000

BACKGROUND:

The Federal Single Audit Act of 1984, subsequent amendments, and corresponding regulations, requires the auditing of financial statements and the compliance and internal controls applicable to federal moneys received by the Commonwealth of Kentucky. To comply with these requirements we audited internal controls and compliance at both the central and agency level. This summary is on our audit of one organizational unit of the Commonwealth, the Cabinet for Families and Children.

EXPENDITURES:

The Cabinet for Families and Children expended federal awards totaling \$811,089,279 in the following manner:

- \$473,322,211 in cash from federal grantors
- \$337,767,068 in noncash grants (Food Stamp benefits)

SUMMARY OF AUDITORS RESULTS:

Financial Statement Accounts

Compliance: No instances of noncompliance

Internal Control Over Financial Reporting: Three (3) reportable conditions, none of which are material weaknesses

Federal Awards and Schedule of Expenditures of Federal Awards

Compliance: Two (2) instances of noncompliance, none of which are material weaknesses and one (1) other matter

Internal Control Over Compliance: Five (5) reportable conditions, none of which are material weaknesses and two (2) other matters

CONTENTS

	<u>Page</u>
<u>INTRODUCTION</u>	
Introduction	2
Schedule Of Expenditures Of Federal Awards	2
Schedule Of Findings And Questioned Costs	2
Summary Schedule Of Prior Audit Findings	3
Audit Approach	3
List Of Abbreviations/Acronyms Used In This Report.....	4
<u>SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</u>	
Schedule Of Expenditures Of Federal Awards	7
Notes To The Schedule Of Expenditures Of Federal Awards	9
<u>REPORTS ON COMPLIANCE AND ON INTERNAL CONTROL</u>	
Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of The General-Purpose Financial Statements Performed In Accordance With Government Auditing Standards.....	15
Report On Compliance With Requirements Applicable To Each Major Program And Internal Control Over Compliance In Accordance With OMB Circular A-133 And On The Schedule Of Expenditures Of Federal Awards	17
<u>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</u>	
Section 1 - Summary Of Auditor's Results.....	21
Section 2 - Financial Statement Findings	23
<u>Reportable Conditions Relating To Internal Controls And/Or Reportable Instances of Noncompliance:</u>	
<u>FINDING 00-CFC-1:</u> The Cabinet For Families And Children Should Monitor The Division Of Child Support Enforcement's Contract With Tier Technologies	23
<u>FINDING 00-CFC-2:</u> The Cabinet For Families And Children Should Implement Cash Controls To Strengthen The Collections Process At Tier Technologies	24
<u>FINDING 00-CFC-3:</u> The Cabinet For Families And Children Should Implement A System For Identifying Specific Expenditure Types Within MARS	27

CONTENTS (Continued)

Page

Section 3 - Federal Award Findings And Questioned Costs

Reportable Conditions Relating To Internal Controls And/Or Compliance:

FINDING 00-CFC-4: The Cabinet For Families And Children Should
Impose Sanctions On Subrecipients Who Fail To Meet Audit
Requirements Set Forth By OMB Circular A-133.....29

FINDING 00-CFC-5: The Cabinet For Families And Children Should
Track All EBT Cards Issued At DCBS Local Offices.....35

FINDING 00-CFC-6: The Cabinet For Families And Children Should
Reconcile FNS-46 Reports Before They Are Submitted To USDA.....37

FINDING 00-CFC-7: The Cabinet For Families And Children Should
Improve Access Security Controls For Manual Input Of EBT - Food Stamp
Records To The EDGE System40

FINDING 00-CFC-8: The Cabinet For Families And Children Should
Establish And Enforce Medical Support Obligations For Custodial Parents44

Other Matters Relating To Internal Controls And/Or Compliance:

FINDING 00-CFC-9: The Cabinet For Families And Children Should
Manually Reduce Food Stamp Benefits For Households That Received
More Benefits Than They Were Entitled To Receive.....46

FINDING 00-CFC-10: The Cabinet For Families And Children Should
Maintain Adequate Supporting Documentation For The ACF-696 Report
That Is Submitted To DHHS.....48

FINDING 00-CFC-11: The Division Of Child Support Should
Monitor Caseworkers To Ensure That Efforts Are Being Made
To Establish And Enforce Support Obligations.....50

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Summary Schedule Of Prior Audit Findings54

INTRODUCTION

**CABINET FOR FAMILIES AND CHILDREN
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2000**

Introduction

The Auditor of Public Accounts (APA), acting as principal auditor in conjunction with various certified public accounting firms, annually performs a statewide single audit of the Commonwealth of Kentucky. This audit allows the Commonwealth to comply with federal audit requirements as set forth in the Single Audit Act of 1984, as amended by Public Law 104-156, and the regulations contained in the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Schedule of Expenditures of Federal Awards

This report contains the Schedule of Expenditures of Federal Awards for the Cabinet for Families and Children (CFC). The Notes to the Schedule of Expenditures of Federal Awards follows the schedule to provide more detailed information on certain aspects of the expenditures, such as the amount given to subrecipients.

Since not all state agencies use the Management Administrative Reporting System (MARS) Subsystems for Projects, the APA requested CFC to prepare worksheets of federal financial assistance. The source of these worksheets included MARS, agency accounting systems, agency manual records, etc. CFC was also asked to reconcile the worksheets to MARS and to federal grantor reports. These worksheets were compiled into the accompanying Schedule of Expenditures of Federal Awards.

Schedule of Findings and Questioned Costs

The Schedule of Findings and Questioned Costs consists of three sections:

- Summary of Auditor's Results
- Financial Statement Findings
- Federal Award Findings and Questioned Costs

Each audit finding number and the audit finding's classification (as reportable or material) is provided as part of the audit opinion summary. Major programs audited are listed on the Summary of Auditor's Results. The second part is the Financial Statement Findings and Questioned Costs. This part lists all of the audit findings related to the financial statements. The third part, the Federal Award Findings and Questioned Costs, lists all findings related to federal awards. Generally, the state agency, CFDA number and program, federal agency, pass-through agency, and the compliance area the finding relates to are presented. In both parts two and three, reportable conditions and reportable instances of noncompliance are presented first, then material weaknesses and material instances of noncompliance, followed by other matters.

**CABINET FOR FAMILIES AND CHILDREN
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

Summary Schedule Of Prior Audit Findings

Audit findings reported in the Schedule of Findings and Questioned Costs for the fiscal year ended June 30, 1999 (as well as any previous findings which have not been resolved) are reported in CFC's Summary Schedule of Prior Audit Findings for the fiscal year ended June 30, 2000. If the APA determines the agency's Summary Schedule of Prior Audit Findings materially misrepresents the status of any prior audit finding, a new audit finding is issued and reported in the Schedule of Findings and Questioned Costs.

The Summary Schedule of Prior Audit Findings is organized based on whether the prior year finding was reportable, material, or other matter. The findings of each classification (reportable, material, and other matter) are categorized as (1) fully corrected, (2) not corrected or partially corrected, (3) corrective action taken differs significantly from corrective action previously reported, or (4) finding no longer valid. If a finding has been reclassified, from material to reportable for instance, the finding will appear in the material finding section of the summary schedule and the comment will indicate the reclassification. In the following year, the finding will appear in the reportable section of the summary schedule.

Audit Approach

Our audit was conducted in accordance with the Single Audit Act Amendments of 1996, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, *Government Auditing Standards* (also referred to as the Yellow Book), and generally accepted auditing standards. The scope of the statewide single audit for the year ended June 30, 2000 included:

- An audit of the general-purpose financial statements and required supplementary schedules in accordance with generally accepted government auditing standards;
- An audit of supplementary Schedule of Expenditures of Federal Awards in accordance with generally accepted government auditing standards;
- An audit of the internal control applicable to CFC to the extent necessary to consider and test the internal accounting and administrative control systems as required; and
- A selection and testing of transactions and records relating to each major federal financial assistance program to obtain reasonable assurance that CFC administers its major federal financial assistance programs in compliance with laws and regulations for which noncompliance could have a material effect on the allowability of program expenditures or on the Commonwealth's general-purpose financial statements.

**CABINET FOR FAMILIES AND CHILDREN
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

Audit Approach (Continued)

The APA conducted the audit of internal controls, focusing on the following objectives:

- Considering the internal control in order to determine auditing procedures on the general-purpose financial statements of the Commonwealth.
- Determining if CFC has internal controls to provide reasonable assurance that it is managing the federal assistance programs in compliance with applicable laws and regulations.

List Of Abbreviations/Acronyms Used In This Report

AE	Administrative Error
AMA	Account Management Agent
APA	Auditor of Public Accounts
ASAP	Automated Standard Application for Payments
C1	Cash Receipt Document
CCDF	Child Care and Development Fund
CCU	Central Collection Unit
CFC	Cabinet for Families and Children
CFDA	Catalog of Federal Domestic Assistance
CFR	Catalog of Federal Regulations
CICS	Customer Information Control System
CRC	Customer Resource Center
CUSIP	Committee on Uniform Securities Identification Procedures
DCBS	Department for Community Based Services
DSI	Department of Social Insurance
EBT	Electronic Benefits Transfer
EDGE	The software system at Funds Corporation used to transfer electronic benefit authorization for the food stamp program
EKCCC	Eastern Kentucky Child Care Council
FAC	Finance and Administration Cabinet
FAS	Financial Accounting System
FFA	Federal Financial Assistance
FNS	Food and Nutrition Services
FY	Fiscal Year
FYE	Fiscal Year Ended
GOT	Governor's Office for Technology
IHE	Inadvertent Household Error

**COMMONWEALTH OF KENTUCKY
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

List Of Abbreviations/Acronyms Used In This Report (Continued)

KAMES	Kentucky Automated Management and Eligibility System
KASES	Kentucky Automated Support and Enforcement System
KCA	Kentucky Automated Claims System
KCCMS	Kentucky Child Care Management System
KCL	Kentucky Claims Initiative
KY	Kentucky
JV	Journal Voucher Document
KRS	Kentucky Revised Statutes
MARS	Management Administrative Reporting System
MRDB	Management Reporting Database
MS	Manual Section
NA	Not Applicable
OFM	Office of Financial Management
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPE	Office of Performance Enhancement
OTS	Office of Technology Services
PD	Procurement Desktop
PIN	Personal Identification Number
SAF	State Audit Form
SAS	Statements on Auditing Standards
SCUF	Service Capacity Upgrade Fund
SEFA	Schedule of Expenditures of Federal Awards
SFY	State Fiscal Year
SSWAK	Statewide Single Audit of Kentucky
STARS	Statewide Accounting and Reporting System
SSN	Social Security Number
TANF	Temporary Assistance for Needy Families
TIER	Tier Technologies
U.S.	United States
USC	United States Code
USDA	United States Department of Agriculture

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2000**

State Agency		Pass-Through Grantor's #	Expenditures	
Federal Grantor	CFDA #/ Program Title		Cash	Noncash
<u>U.S. Dept Of Agriculture</u>				
Direct Programs:				
10.551	Food Stamps (Note 2)	NA		\$ 337,767,068
10.561	State Administrative Matching Grants for Food Stamp Program (Note 2)	NA	27,124,160	
Passed Through From Cabinet For Health Services				
10.557	Women, Infants, and Children Nutrition	3F9703 3KY700703	5,259	
<u>U.S. Dept Of Labor</u>				
Direct Programs:				
17.253	Welfare To Work Grants To States And Localities	NA	5,252,564	
<u>U.S. Dept Of Energy</u>				
Direct Programs:				
81.042	Weatherization Assistance For Low-Income Persons (Note 6)	NA	2,295,992	
<u>U.S. Dept Of Education</u>				
Direct Programs:				
84.013	Title 1 Program For Neglected and Delinquent Children (Note 4)	NA		
<u>U.S. Department Of Health And Human Services</u>				
Direct Programs:				
93.556	Promoting Safe and Stable Families	NA	3,841,945	
93.558	Temporary Assistance For Needy Families (Note 2)	NA	188,472,794	
93.563	Child Support Enforcement (Note 2) (Note 6)	NA	38,853,993	
93.568	Low-Income Home Energy Assistance (Note 2) (Note 6)	NA	23,942,645	
93.569	Community Services Block Grant (Note 6)	NA	8,690,152	
93.571	Community Services Block Grant Discretionary Awards- Community Food And Nutrition (Note 6)	NA	51,078	
93.575	Child Care And Development Block Grant (Note 6)	NA	11,992,225	

See accompanying notes to the Schedule of Expenditures of Federal Awards

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2000**

State Agency		Pass-Through Grantor's #	Expenditures	
Federal Grantor	CFDA #/ Program Title		Cash	Noncash
<u>U.S. Department Of Health And Human Services</u>				
Direct Programs (Continued):				
93.596	Child Care Mandatory And Matching Funds Of The Child Care And Development Fund (Note 2)	NA	\$ 36,092,479	
93.597	Grants To States For Access And Visitation Programs	NA	156,525	
93.643	Children's Justice Grants To States (Note 6)	NA	120,060	
93.645	Child Welfare Services-State Grants	NA	4,671,728	
93.658	Foster Care Title IV-E (Note 2) (Note 6)	NA	43,856,521	
93.659	Adoption Assistance	NA	6,104,967	
93.667	Social Services Block Grant (Note 2) (Note 6)	NA	14,242,063	
93.669	Child Abuse And Neglect State Grants (Note 6)	NA	1,156,425	
93.671	Family Violence Prevention And Services/Grants For Battered Women's Shelters-Grants To States And Indian Tribes (Note 6)	NA	826,098	
93.674	Independent Living (Note 6)	NA	844,518	
N/A	The Placement and Treatment of Neuropsychiatric Patients	NA	507,801	
Passed Through From Cabinet For Health Services				
93.767	State Children's Insurance Program	5-9805KY5021 5-9905KY5021	1,128,928	
93.778	Medical Assistance Administration	5-9905KY5048 5-0005KY5148	18,425,948	
<u>Independent Agency Programs</u>				
<u>Corporation For National And Community Service</u>				
94.003	State Commissions	NA	82,441	
94.004	Learn and Serve America School and Community Based Programs	NA	34,123	
94.006	Americorps	NA	1,425,102	
94.009	Training and Technical Assistance	NA	17,170	
<u>U.S. Social Security Administration</u>				
Direct Program:				
96.001	Social Security - Disability Insurance (Note 2) (Note 6)	NA	33,106,507	
Total Cabinet for Families and Children			\$ 473,322,211	\$ 337,767,068

See accompanying notes to the Schedule of Expenditures of Federal Awards

CABINET FOR FAMILIES AND CHILDREN
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2000

Note 1 - Purpose of the Schedule and Significant Accounting Policies

Purpose of the Schedule - OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations requires a Schedule of Expenditures of Federal Awards showing each federal financial assistance program as identified in the Catalog of Federal Domestic Assistance.

Basis of Presentation - The accompanying schedule is presented in accordance with OMB Circular A-133. As defined in the circular, federal financial assistance “ . . . means assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance, but does not include amounts received as reimbursement for services rendered to individuals” It includes awards received directly from federal agencies, or indirectly through other units of state and local governments. Accordingly, the accompanying schedule includes both cash and noncash federal assistance programs. Those programs that have not been assigned a catalog number, or for which the catalog number was not available, have been shown either at the bottom of the relevant federal grantor subheading or under the “Other Federal Assistance” subheading.

Reporting Entity - The accompanying schedule includes all federal financial assistance programs administered by CFC. CFC is an organizational unit of the Commonwealth of Kentucky as defined by KRS 12.010 and is included in the Commonwealth entity for financial reporting purposes.

Basis of Accounting - The cash expenditures on the accompanying schedule is presented primarily on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed.

KRS 45.229 provides that the Finance and Administration Cabinet may, “ . . . for a period of thirty (30) days after the close of any fiscal year, draw warrants against the available balances of appropriations made for that fiscal year, for the payment of expenditures incurred during that year or in fulfillment of contracts properly made during the year, but for no other purpose.” However, there is an exception to the application of KRS 45.229 in that regular payroll expenses incurred during the last pay period of the fiscal year are charged to the next year.

The Commonwealth’s general-purpose financial statements are presented on the accrual/modified accrual basis of accounting. Therefore, the schedule’s cash assistance programs may not be directly traceable to the general-purpose financial statements in all cases.

**CABINET FOR FAMILIES AND CHILDREN
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

Note 1 - Purpose of the Schedule and Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

The noncash expenditures presented on this schedule represents noncash assistance expended by CFC during the period July 1, 1999 through June 30, 2000, using the method or basis of valuation as described in the notes to the schedule for each program. These noncash assistance programs are not reported in CFC's general-purpose financial statements for the year ended June 30, 2000.

Inter-agency Activity - Certain transactions relating to federal financial assistance may appear in the records of more than one state agency. To avoid the overstatement of federal expenditures, the following policies were adopted for the presentation of CFC's schedule:

- (a) Federal moneys may be received by one state agency (primary state agency - recipient) and passed through to another state agency (secondary state agency - sub-recipient) where the moneys are expended. Except for pass-throughs to state universities as discussed below, this inter-agency transfer activity is reported in the schedule as follows:
 - Under the primary state agency, the federal program is reported as a direct program. However, the transfer of money to the secondary state agency is not included in the primary state agency's expenditures.
 - Under the secondary state agency, the federal program is reported as a pass-through program. The expenditure of the transferred moneys is reported in the secondary agency's expenditures.

Because schedule excludes federal financial assistance related to state universities, when a state agency passes federal money to a state university, this is reported in the schedule as an expenditure of that state agency.

- (b) Federal moneys received by CFC and used to purchase goods or services from another state agency are reported in the schedule as an expenditure.

CABINET FOR FAMILIES AND CHILDREN
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)

Note 2 - Type A Programs

Under the provisions of OMB Circular A-133, a Type A program for the Commonwealth means any program for which total expenditures of federal awards exceeded \$14 million for FY 2000. Clusters are a group of closely related programs sharing common compliance requirements. A cluster of programs shall be considered as one program for determining Type A programs.

In relation to noncash federal financial assistance programs, this threshold is generally applied to the amount of assistance expended during the year, as presented on the noncash portion of the schedule, plus any cash expenditures under the same CFDA designation.

CFC had programs (cash and noncash) that met the Type A program definition for the year ended June 30, 2000. CFC's Type A programs, which include 4 clusters, were:

CFDA #	Program Title	Expenditures
10.551	Food Stamps	\$ 337,767,068 b
10.561	State Administrative Matching Grants For Food Stamp Program	27,124,160 b
93.558	Temporary Assistance For Needy Families	188,472,794
93.563	Child Support Enforcement	38,853,993
93.568	Low-Income Home Energy Assistance	23,942,645
93.575	Child Care And Development Block Grant	11,992,225 a
93.596	Child Care Mandatory And Matching Funds Of The Child Care And Development Fund	36,092,479 a
93.658	Foster Care - Title IV-E	43,856,521
93.667	Social Services Block Grant	14,242,063
93.778	Medical Assistance Administration	18,425,948 d
96.001	Social Security - Disability Insurance	33,106,507 c
<u>TOTAL</u>		<u>\$ 773,876,403</u>

Identified clusters include:

- a** - Child Care Cluster
- b** - Food Stamp Cluster
- c** - Disability Insurance/SSI Cluster
- d** - Medicaid Cluster

CABINET FOR FAMILIES AND CHILDREN
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)

Note 3 - Activity Occurring in Programs With Inventoriable Items

CFC is a pass-through entity for local organizations. CFC receives, stores, and distributes inventory items related to the Food Stamp (CFDA #10.551) program. In these instances, all items received are eventually distributed.

	Food Stamps CFDA #10.551
Beginning Inventory, July 1, 1999	\$ 57,691,362
Prior Year Adjustment	(7,197,935)
Current Year Receipts	71,127,966
Current Year Distributions	(71,468,082)
Transfers/Losses/Adjustments	(50,153,301)
Ending Inventory, June 30, 2000	<u>\$ 10</u>

Note 4 - Zero Expenditure Programs

These programs had no expenditures during the year ended June 30, 2000. They include programs with no activity during the year, such as old programs not officially closed out or new programs issued late in the fiscal year. They also include programs with activity other than expenditures.

Note 5 - Noncash Expenditure Programs

CFC had one (1) noncash program for the year ended June 30, 2000. This noncash program and a description of the method/basis of valuation follows:

CFDA #	Program Title	Amount	Method/Basis of Valuation
10.551	Food Stamps	\$337,767,068	Coupon Value

CABINET FOR FAMILIES AND CHILDREN
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)

Note 6 - Subrecipient Activity

A subrecipient is a non-federal entity that expends federal awards received from a pass-through entity to carry out a federal program. The following list summarizes the amount of federal funds sent to subrecipients:

CFDA #	Federal Program Name	Amount Sent
10.561	State Administrative Matching Grants for Food Stamp Program	\$ 527,131
17.253	Welfare to Work Grants to States and Localities	4,922,522
81.042	Weatherization Assistance for Low Income Persons	2,210,739
93.556	Promoting Safe and Stable Families	2,352,127
93.558	Temporary Assistance to Needy Families	16,854,840
93.563	Child Support Enforcement, Title IV-D	19,046,299
93.568	Low-Income Home Energy Assistance	23,249,022
93.569	Community Services Block Grant	7,747,924
93.571	Community Services Block Grant Discretionary Awards - Community Food and Nutrition	51,078
93.575	Child Care Development Block Grant	10,500,065
93.597	Grants to States for Access and Visitation Programs	104,365
93.643	Children's Justice Grants to States	70,476
93.658	Foster Care Title IV - E	6,777,963
93.667	Social Services Block Grant	724,452
93.669	Child Abuse and Neglect State Grants	820,645
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters - Grants to States and Indian Tribes	832,770
93.674	Independent Living	392,181
93.778	Medical Assistance Administration	68,908
96.001	Social Security-Disability Insurance	3,166,358
Total Amount Sent to Subrecipients		<u>\$100,419,865</u>

THIS PAGE LEFT BLANK INTENTIONALLY

REPORTS ON COMPLIANCE AND ON INTERNAL CONTROL



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Viola Miller, Secretary
Cabinet for Families and Children

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The General-Purpose
Financial Statements Performed In Accordance With *Government Auditing Standards*

As part of the audit of the general-purpose financial statements of the Commonwealth of Kentucky as of and for the year ended June 30, 2000. We have audited receipts, receivables, expenditures, payroll, and food stamps of the Cabinet for Families and Children (CFC), an organizational unit of the Commonwealth as defined by KRS 12.010 and have issued our report thereon dated February 28, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Commonwealth's financial statements are free of material misstatement, we performed tests of CFC's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered CFC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect CFC's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 00-CFC-1, 00-CFC-2, and 00-CFC-3.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The General-Purpose
Financial Statements Performed In Accordance With *Government Auditing Standards*
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above are material weaknesses.

This report is intended solely for the information and use of management and applicable federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish extending from the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

February 28, 2001



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Viola Miller, Secretary
Cabinet for Families and Children

Report On Compliance With Requirements Applicable To Each
Major Program And On Internal Control Over Compliance In Accordance With
OMB Circular A-133 And On The Schedule Of Expenditures Of Federal Awards

Compliance

As part of the Statewide Single Audit of the Commonwealth of Kentucky, we have audited the compliance of the Cabinet for Families and Children (CFC), an organizational unit of the Commonwealth as defined by KRS 12.010, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2000. CFC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of CFC's management. Our responsibility is to express an opinion on CFC's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about CFC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on CFC's compliance with those requirements.

Report On Compliance With Requirements Applicable To Each
Major Program And On Internal Control Over Compliance In Accordance
With OMB Circular A-133 And On The Schedule of Expenditures of Federal Awards
(Continued)

Compliance (Continued)

In our opinion, CFC complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2000. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 00-CFC-4 and 00-CFC-8.

Internal Control Over Compliance

The management of CFC is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered CFC's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect CFC's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 00-CFC-4, 00-CFC-5, 00-CFC-6, 00-CFC-7, and 00-CFC-8.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Report On Compliance With Requirements Applicable To Each
Major Program And On Internal Control Over Compliance In Accordance
With OMB Circular A-133 And On The Schedule of Expenditures of Federal Awards
(Continued)

Schedule of Expenditures of Federal Awards

We have audited the general-purpose financial statements of the Commonwealth as of and for the year ended June 30, 2000, and have issued our report thereon dated February 28, 2001. Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards of CFC is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements.

As described in Note 1, the schedule of expenditures of federal awards of CFC is intended to present only that portion of the expenditures of federal awards of the Commonwealth that is attributable to the transactions of CFC.

The general-purpose financial statements of the Commonwealth are prepared on the accrual/modified accrual basis of accounting. However, as described in Note 1, the schedule of expenditures of federal awards of CFC is prepared on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed. Accordingly, the schedule of expenditures of federal awards is not intended to present the expenditures of federal awards in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the effect of the application of a different basis of accounting as explained above, the schedule of expenditures of federal awards of CFC is fairly stated, in all material respects, in relation to the Commonwealth's general-purpose financial statements taken as a whole.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully Submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Schedule of Expenditures of Federal Awards -
February 28, 2001

July 31, 2001

THIS PAGE LEFT BLANK INTENTIONALLY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000**

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Financial Statement Accounts

Financial Statement Accounts: We issued an unqualified opinion on the Commonwealth's general-purpose financial statements, which included the Cabinet for Families and Children (CFC), as of and for the year ended June 30, 2000.

Internal Control Over Financial Reporting: Our consideration of CFC's internal control over financial reporting disclosed three (3) reportable conditions. We believe that none of the reportable conditions noted are material weaknesses.

Compliance: The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Federal Awards And Schedule Of Expenditures Of Federal Awards

Compliance: We issued an unqualified opinion on CFC's compliance with the requirements applicable to each of its major federal programs. However, the results of our auditing procedures disclosed two (2) instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance: Our consideration of CFC's internal control over compliance disclosed five (5) reportable conditions. We believe that none of the reportable conditions noted are material weaknesses.

Schedule of Expenditures of Federal Awards: We issued a qualified opinion on CFC's Schedule of Expenditures of Federal Awards because the schedule was presented on a basis of accounting that was not in conformance with accounting principles generally accepted in the United States of America, as described in Note 1 of the schedule. The opinion was issued in relation to the Commonwealth's general-purpose financial statements taken as a whole.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS (CONTINUED)

Identification of Major Programs Audited

OMB Circular A-133 defines a major program as "a Federal program determined by the auditor to be a major program in accordance with section _ .520 or a program identified as a major program by the Federal awarding agency or pass-through entity in accordance with section _ 215(c)." Section _____.520 states, "[t]he auditor shall use a risk-based approach to determine which Federal programs are major programs." The following is a list of major Type A programs audited:

CFDA #	Program Title	Expenditures
10.551	Food Stamps	\$ 337,767,068 b
10.561	State Administrative Matching Grants For Food Stamp Program	27,124,160 b
93.558	Temporary Assistance For Needy Families	188,472,794
93.563	Child Support Enforcement	38,853,993
93.568	Low-Income Home Energy Assistance	23,942,645
93.575	Child Care And Development Block Grant	11,992,225 a
93.596	Child Care Mandatory And Matching Funds Of The Child Care And Development Fund	36,092,479 a
93.658	Foster Care - Title IV-E	43,856,521
93.667	Social Services Block Grant	14,242,063
93.778	Medical Assistance Administration	18,425,948 d
96.001	Social Security - Disability Insurance	33,106,507 c
Total Type A Programs		\$ 773,876,403

Identified clusters include:

- a** - Child Care Cluster
- b** - Food Stamp Cluster
- c** - Disability Insurance/SSI Cluster
- d** - Medicaid Cluster

Dollar Threshold Used to Distinguish Between Type A and Type B Programs

The maximum dollar threshold used to distinguish between Type A and Type B Programs was \$14,000,000. No Type B programs were audited in FY 2000.

Auditee Qualify as Low-Risk Auditee?

The Commonwealth did not qualify as a low-risk auditee.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

**Reportable Conditions Relating To Internal Controls And/Or Reportable Instances
Of Noncompliance:**

**FINDING 00-CFC-1: The Cabinet For Families And Children Should Monitor The
Division Of Child Support Enforcement's Contract With Tier Technologies**

Cabinet for Families and Children (CFC) contracts with Tier Technologies (Tier) as the central collection unit for collecting, processing, and depositing child support payments. During FY 2000, Tier processed 75%, or \$178,037,555, of CFC's total child support collections and collected \$1,725,013 in fees for providing these services to the state. During our audit, we noted that CFC does not monitor the collection process at Tier to ensure compliance with contractual provisions. We also noted there is no audit of the contractor's daily operations by an independent accounting firm.

CFC's failure to monitor Tier's compliance with contract provisions increases the risk weaknesses existing in internal controls would go undetected. CFC does not have assurance the existing internal controls are suitably designed to achieve the control objectives, as specified in the contract, nor do they know if controls were operating with sufficient effectiveness to provide reasonable assurance CFC's objectives were met.

CFC has oversight responsibility to ensure contract provisions are met and controls over collections are adequate to safeguard child support monies. The contract between CFC and Tier states, "[a]ll services performed under contract shall be in accordance with the terms and provisions of the contract. It will be the agency's responsibility to insure that such services rendered are performed and acceptable."

Recommendation

We recommend CFC implement a system for monitoring Tier:

- CFC should have a system in place to monitor contract compliance to ensure controls are in place and contract provisions are being met.
- CFC should require Tier to have, at a minimum, a biennial audit of its daily operations by an independent accounting firm.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

**Reportable Conditions Relating To Internal Controls And/Or Reportable Instances
Of Noncompliance: (Continued)**

**FINDING 00-CFC-1: The Cabinet For Families And Children Should Monitor The
Division Of Child Support Enforcement's Contract With Tier Technologies
(Continued)**

Management's Response and Corrective Action Plan

We have monitored Tier Technology's operation of the centralized collection process through monthly activity reports we require the vendor to submit each month and periodic meetings with Tier staff to discuss operational issues. However, we agree that a monitoring system should be in place to monitor contract compliance. On February 1, 2001, [a CFC representative] will be meeting with the Director of the Division of Outcome Based Contracts. As this office is responsible for contract monitoring, [The representative] will request that this office begin to monitor the Tier contract as recommended. Additionally, we will request the Division of Outcome Based Contracts make arrangements for a bi-annual audit.

**FINDING 00-CFC-2: The Cabinet For Families And Children Should Implement
Cash Controls To Strengthen The Collections Process At Tier Technologies**

CFC contracts with Tier as the central collection unit to process and deposit child support payments. Funds collected by Tier are posted to the Kentucky Automated Support and Enforcement System (KASES) and deposited into a temporary deposit account prior to being wire transferred to Treasury.

We reviewed the collection process at Tier and noted the following weaknesses:

- Tier does not have a safe to secure monies that are not deposited the day of receipt. Monies collected by Tier during weekend hours or monies not deposited the day of receipt are held in a locked desk drawer until deposit on the next business day.
- Tier does not process cash payments; cash payments are mailed to personnel at CFC for deposit into Treasury. CFC does not have an adequate system in place to process cash payments.

An inadequate cash control system increases the risk of loss due to theft or misappropriation.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

**Reportable Conditions Relating To Internal Controls And/Or Reportable Instances
Of Noncompliance: (Continued)**

**FINDING 00-CFC-2: The Cabinet For Families And Children Should Implement
Cash Controls To Strengthen The Collections Process At Tier Technologies
(Continued)**

Good internal controls over cash dictate that monies should be securely held until deposited. Where feasible, deposits should be made daily. If this is not possible, monies should be placed in a lockable, fireproof safe until deposited in Treasury.

The contract between CFC and Tier says Tier is to “develop and maintain an accounting system for daily posting of all collections received.” This should include a system for processing cash payments.

Recommendation

We recommend CFC implement and enforce the following procedures to strengthen cash controls and to ensure all child support monies are secured:

- Tier should place all monies that are not processed and deposited the same business day in a lockable, fireproof safe until such time that they can be deposited in Treasury.
- Tier should have cash controls in place adequate to account for and safeguard cash received for child support payments. As explicitly mentioned in the contract, Tier has the responsibility to process and deposit “all collections received.” While cash payments may be discouraged by the agency, cash payments should not be denied or excluded as a medium of exchange in collecting child support payments.
- Tier should not mail cash received to CFC under any circumstances.

Management’s Response and Corrective Action Plan

We agree with the recommendations to strengthen cash controls of child support collections by Tier’s centralized collection unit. Tier now has a fire proof, lockable safe in which all cash receipts are placed. Also, Tier now has cash controls in place where all cash receipts are deposited daily in a local bank by the Manager or Assistant Manager. These deposits are transferred electronically to CFC. Tier staff have been instructed not to mail cash to CFC under any circumstances.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

**Reportable Conditions Relating To Internal Controls And/Or Reportable Instances
Of Noncompliance: (Continued)**

**FINDING 00-CFC-3: The Cabinet For Families And Children Should Implement A
System For Identifying Specific Expenditure Types Within MARS**

During our audit, we noted CFC does not segregate expenditures for procurements of goods and services, personal service contracts, or Memoranda of Agreement. We attempted to separate the different expenditure types for testing purposes, as different controls are present for each. However, because CFC does not have a system in place to track expenditures, we were unable to verify the amounts and test the controls for these types of transactions.

According to the Finance and Administration Cabinet (FAC) contracts that are encumbered, such as personal service contracts, have full referenced history in Management Reporting Database (MRDB) Advantage tables. Memoranda of Agreement are master agreements that send no reference information to Advantage. One would have to go to Procurement Desktop (PD) tables to pick up the master agreements and related referencing payment transactions. This PD information is designed to reside in MRDB, but there are technical difficulties in creating the daily update for MRDB.

KRS 171.640 states, “[t]he head of each state or local agency shall cause to be made and preserved records containing adequate and proper documentation of the . . . essential transactions of the agency . . .”

Good internal controls dictate expenditure documents are backed up with adequate source documentation that would allow the APA or other interested parties a means to verify expenditures.

The failure to establish proper controls to ensure the accuracy and completeness of data processing and output can result in incomplete or inaccurate system information and could affect any related payments.

Recommendation

CFC should implement a system for identifying specific expenditure types within MARS. If this is not possible, CFC should develop a method for tracking different types of expenditures. A reporting mechanism should be established so MRDB reports are readily available.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

**Reportable Conditions Relating To Internal Controls And/Or Reportable Instances
Of Noncompliance: (Continued)**

**FINDING 00-CFC-3: The Cabinet For Families And Children Should Implement A
System For Identifying Specific Expenditure Types Within MARS (Continued)**

Management's Response and Corrective Action Plan

The weakness identified in the response refers to a lack of segregation of expenditures by the Cabinet. [CFC] cannot agree to this statement as you can see listed below we code all contracts in the manner that will identify the types of transactions identified:

<i>Personal Service Contracts</i>	<i>E-150</i>	
<i>Consultant Contracts</i>	<i>E-170</i>	
<i>Child Support Contracts</i>	<i>E-399</i>	
	<i>E-422</i>	
<i>Program Administration Contracts</i>	<i>E-415</i>	
<i>Total Expenditures</i>	<i>E-140</i>	<i>\$ 52,649,953.09</i>
<i>Total Expenditures</i>	<i>E-410</i>	<i>\$178,162,767.99</i>

Verification of expenditures for each of these categories should be available from MRDB by creating reports that have parameters set matching the appropriate object codes. This information is also available from the Financial Accounting System (FAS).

The audit response also refers to a lack of ability to tie expenditures to document type. [CFC does] not see how [it] can be held responsible for limitations of the MARS system. It is [our] understanding that this is being corrected in the future. [We] suggest the Auditor of Public Accounts work with the Division of Statewide Accounting to insure the proper changes to the system are completed that will satisfy auditing requirements for all agencies.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

**Reportable Conditions Relating To Internal Controls And/Or Reportable Instances
Of Noncompliance: (Continued)**

**FINDING 00-CFC-3: The Cabinet For Families And Children Should Implement A
System For Identifying Specific Expenditure Types Within MARS (Continued)**

Auditor's Reply

The APA was in contact with CFC and FAC continuously throughout this test. We were not provided with a total population for Personal Service Contracts, Memoranda of Agreement, or Procurements by the agency. Furthermore, the information provided in the response to this finding was not made available to our staff during testing. Even if the information had been available, it does not address the questions we have concerning the verification of expenditures for the various transaction types. Finally, the agency fails to provide any information in its response related to Personal Service Contracts (E-150); Consultant Contracts (E-170); Child Support Contracts (E-399, E-422); and Program Administrative Contracts (E-415). Please note that E140 is not a valid object code within MARS. Further, object code E410 is designated for "Public Defender Fees, which would not be applicable to this finding.

We enlisted the assistance of FAC, which attempted to provide us with a spreadsheet summarizing Personal Service Contracts and Memoranda of Agreement. However, FAC disclosed that if a payment were made by the agency related to the contract, but the agency entered the payment in such a manner that it did not reference the contract, the payment would be omitted from the spreadsheet. FAC also noted that if the contract, either the original or a modification, contained an inaccurate sub-type, all related payments would be omitted. Thus, as we have commented, the agency was not able to verify sufficiently what amounts applied to the various transaction types.

We look forward to working with both CFC and FAC in the FY 01 audit to resolve this problem.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Control And/Or Reportable Instances Of Noncompliance:

FINDING 00-CFC-4: The Cabinet For Families And Children Should Impose Sanctions On Subrecipients Who Fail To Meet Audit Requirements Set Forth By OMB Circular A-133

State Agency: Cabinet for Families and Children

Federal Program: CFDA 93.558 - Temporary Assistance for Needy Families,

CFDA 93.563 - Child Support Enforcement,

CFDA 93.575 - Child Care and Development Block Grant, and

CFDA 93.596 - Child Care Mandatory and Matching Funds of the
Child Care and Development Fund

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: None

CFC contracts with local not-for-profit organizations and county attorneys to provide Temporary Assistance for Needy Families (TANF), Child Support, and Child Care Development Fund (CCDF) child care services to needy families. As subrecipients of federal awards, organizations that expend in excess of \$300,000 are required to have a single or program-specific audit in accordance with OMB Circular A-133.

Audits of subrecipients must be submitted to CFC within 9 months after the end of the fiscal year being audited. Upon completion, the audit report is to be submitted to CFC for review. We requested monitoring reports, subrecipient contracts, and audit reports to test CFC's compliance with OMB Circular A-133 provisions. We noted various subrecipients who did not submit an audit report to CFC by the required deadline and several who failed to submit a report or request an extension.

The following subrecipients failed to submit an audit report to CFC by the deadline:

Program	CFDA #	Year	Contractor	Contract #	Amount Sent FY 00
Child Support	93.563	FY00	Campbell County Attorney	61-1264507	\$337,985
Child Support	93.563	FY00	Kenton County Attorney	61-1251610	\$561,152
Child Support	93.563	FY00	Warren County Attorney	61-0943920	\$387,932

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Control And/Or Reportable Instances Of Noncompliance: (Continued)

FINDING 00-CFC-4: The Cabinet For Families And Children Should Impose Sanctions On Subrecipients Who Fail To Meet Audit Requirements Set Forth By OMB Circular A-133 (Continued)

The following subrecipients failed to submit an audit report to CFC or request an extension:

Program	CFDA #	Year	Contractor	Contract #	Amount Sent FY 00
TANF	93.558	FY00	Big Sandy Area Development District	61-0671002	\$2,163,658
TANF	93.558	FY00	Kentucky Community & Technical College System	61-1320380	\$1,291,537
TANF	93.558	FY00	Seven Counties Services	31-0939757	\$729,300
Child Support	93.563	FY00	Jefferson County	61-0735880	\$5,119,910
CCDF	93.575	FY99	Child Care Council of Kentucky	31-1102545	\$783,548
CCDF	93.575	FY00	Child Care Council of Kentucky	31-1102545	\$974,133

Eastern Kentucky Child Care Coalition (EKCCC) failed to submit an audit report for both FY 1999 and FY 2000. CFC granted an extension for the FY 2000 audit, which is also past due, despite the fact that the FY 1999 EKCCC audit was not submitted. While extensions were granted for both audits, we believe that granting an extension for the FY 2000 audit, when the FY 1999 audit is 15 months overdue, is not only a violation of federal regulations, but diminishes the report's usefulness.

CFC cannot be assured subrecipients are expending federal awards for their intended purpose and complying with the requirements of OMB Circular A-133. All of the contractors have had their funding increased from FY 1999 to FY 2000. Also, CFC did not impose sanctions on contractors who failed to comply.

OMB Circular A-133, Subpart B, says, "Non-Federal entities that expend \$300,000 or more in a year in Federal awards shall have a single or program-specific audit conducted for that year in accordance with the provisions of this part."

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Control And/Or Reportable Instances Of Noncompliance: (Continued)

FINDING 00-CFC-4: The Cabinet For Families And Children Should Impose Sanctions On Subrecipients Who Fail To Meet Audit Requirements Set Forth By OMB Circular A-133 (Continued)

CFC has the following responsibilities under OMB Circular A-133, Subpart D:

- 1) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity;
- 2) Ensure required audits are performed and require subrecipients to take prompt corrective action on any audit findings; and,
- 3) Evaluate the impact of subrecipient activities on the pass through entity's ability to comply with applicable Federal regulations.

OMB Circular A-133 §____.225 states,

No audit costs may be charged to Federal awards when audits required by this part have not been made or have been made but not in accordance with this part. In cases of continued inability or unwillingness to have an audit conducted in accordance with this part, Federal agencies and pass-through entities shall take appropriate action using sanctions such as:

- (a) Withholding a percentage of Federal awards until the audit is completed satisfactorily;
- (b) Withholding or disallowing overhead costs;
- (c) Suspending Federal awards until the audit is conducted; or
- (d) Terminating the Federal award.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Control And/Or Reportable Instances Of Noncompliance: (Continued)

FINDING 00-CFC-4: The Cabinet For Families And Children Should Impose Sanctions On Subrecipients Who Fail To Meet Audit Requirements Set Forth By OMB Circular A-133 (Continued)

Recommendation

CFC should enforce OMB Circular A-133 provisions by implementing the following controls:

- Impose sanctions, disallow overhead costs, disallow expenditures, suspend federal awards, or terminate the federal award for subrecipients who fail to meet audit requirements set forth by OMB Circular A-133;
- Deny all requests for extensions made by subrecipients who have failed to submit an audit report (required by OMB Circular A-133) from the prior year;
- Establish a new deadline for submitting the audit when extensions are granted;
- Remind subrecipients of their audit reporting responsibilities under OMB Circular A-133; and,
- Follow-up with subrecipients to ensure audits are performed and findings submitted in a timely manner.

Management's Response and Corrective Action Plan

CAMPBELL COUNTY CHILD SUPPORT

The audit was due March 31, 2001 and received April 5, 2001.

KENTON COUNTY CHILD SUPPORT

The audit was due March 31, 2001 and received April 16, 2001.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Control And/Or Reportable Instances Of Noncompliance: (Continued)

FINDING 00-CFC-4: The Cabinet For Families And Children Should Impose Sanctions On Subrecipients Who Fail To Meet Audit Requirements Set Forth By OMB Circular A-133 (Continued)

Management's Response and Corrective Action Plan (Continued)

WARREN COUNTY CHILD SUPPORT

We inadvertently overlooked the requirement for an A-133 audit for Warren County Child Support. We have contacted that office and were advised they had provided a copy to the Director of the Division of Child Support, but did not provide our office with a copy. This has now been mailed and we should receive it any day.

BIG SANDY AREA DEVELOPMENT DISTRICT

We are not the cognizant agency for the Area Development Districts. They submit their audits to the Department of Local Government who processes the audit and advises us if there are issues that the Cabinet needs to address, we do have a copy of the audit on file.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

We inadvertently overlooked the requirement for an A-133 audit. The audit is being requested.

SEVEN COUNTIES

The Office of Inspector General [OIG] handles this audit for us as the desk review is completed by an agency other than OIG. We received the audit May 17, 2001.

JEFFERSON COUNTY CHILD SUPPORT

We have not received this audit. Letters were sent on February 14, 2001, March 19, 2001, and May 11, 2001. A fourth letter will be sent.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Control And/Or Reportable Instances Of Noncompliance: (Continued)

FINDING 00-CFC-4: The Cabinet For Families And Children Should Impose Sanctions On Subrecipients Who Fail To Meet Audit Requirements Set Forth By OMB Circular A-133 (Continued)

Management's Response and Corrective Action Plan (Continued)

CHILD CARE COUNCIL OF KENTUCKY

We have not received either of these audits. Letters were sent for SFY 1999 on February 11, 2000, April 1, 2000, and May 11, 2000. Letters were sent for SFY 2000 on March 19, 2001 and March 20, 2001.

EASTERN KENTUCKY CHILD CARE COALITION

We granted extensions for SFY 1999 with a final extension date of July 15, 2001 and an extension for SFY '00 until September 30, 2001. The audit for year ended 2000 could not be completed until the 1999 report was finished. EKCCC lost their accountant and was in the process of trying to replace this individual. Prior to the accountant's departure, he was having difficulties getting information completed due to understaffing in the agency and his departure further compounded the problem. The auditor's completing the audit had issues with salaries and had to complete random sampling, which also attributed to the delays. [A CFC representative] talked with them today and the SFY 1999 has been completed and mailed. The auditor also advised that they are on target for the 2000 audit to be finished by September 30, 2001.

We have procedures in place to track and monitor these audits. A log was developed which indicates date received, date reminder letters sent, date to OIG, problems, corrective action, etc.

Auditor's Reply

While we acknowledge that CFC has procedures in place to track and monitor subrecipient audits, significant weaknesses still exist that affect the agency's compliance with federal regulations. To strengthen the system and ensure subrecipient compliance, CFC should impose sanctions as set forth in the recommendation.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Control And/Or Reportable Instances Of Noncompliance: (Continued)

FINDING 00-CFC-5: The Cabinet For Families And Children Should Track All EBT Cards Issued At DCBS Local Offices

State Agency: Cabinet for Families and Children

Federal Program: CFDA 10.561–State Administrative Matching Grants for Food Stamp Program

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Special Tests and Provisions

Amount of Questioned Costs: None

We reviewed procedures at CFC's Department for Community Based Services (DCBS) and noted local offices did not follow procedures outlined in the DCBS Operation Manual regarding EBT (Electronic Benefits Transfer) card security, issuance, and recordkeeping. We noted the following weaknesses:

- EBT cards and PINs (Personal Identification Numbers) are not always stored in a locked, secured area, with access limited to the supervisor and 2 designated employees.
- Receiving, storing, and recording the receipt of all EBT cards and PINs is not restricted to one designated employee.
- All required forms regarding the issuance of cards to clients and destruction of cards and PINs are not being completed accurately, signed by the designated employee, or reviewed by the supervisor periodically.

CFC has no way to track and account for EBT cards and PINs mailed from the third-party processor to the local offices because there is no master list of EBT cards and PINs kept by local offices or the third-party processor. The DCBS forms are the only method of keeping track of EBT cards and PINs issued from the local offices.

Insufficient recordkeeping and security over EBT cards and PINs increases the risk of theft, loss, or unauthorized use of food stamp benefits.

Code of Federal Regulations (CFR) Title 7 Section 274.12 – “Electronic Benefit Transfer Issuance System Approval Standards” requires that storage and control measures be in place to ensure the security of EBT cards and PINs.

The DCBS Operation Manual Sections 8010-8030 describes local office responsibility in the areas of EBT Card and PIN security, issuance, and recordkeeping.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Control And/Or Reportable Instances Of Noncompliance: (Continued)

FINDING 00-CFC-5: The Cabinet For Families And Children Should Track All EBT Cards Issued At DCBS Local Offices (Continued)

Recommendation

CFC should implement the following controls to ensure security over EBT cards and PINs that are held in DCBS local offices:

- Require all local office personnel to follow the procedures as outlined in the DCBS Operation Manual regarding EBT card security, issuance, and recordkeeping;
- Train all local office personnel in the security, issuance, and recordkeeping procedures for EBT cards and PINs; and,
- Track all EBT cards and PINs that are being held and issued by the local offices.

Management's Response and Corrective Action Plan

This is in response to your July 13, 2001 memorandum on the above subject. In your correspondence you provided the results of your audit of the Cabinet for Families and Children for fiscal year ending June 30, 2000. The following weaknesses were identified:

- 1. EBT cards and PINs are not always stored in a locked, secured area with access limited to the supervisor and 2 designated employees.*
- 2. Receiving, storing, and recording the receipt of all EBT cards and PINs is not restricted to one designated employee.*
- 3. All required forms regarding the issuance of cards to clients and destruction of cards and PINs are not being completed accurately, signed by the designated employee, or reviewed by the supervisor periodically.*

To correct the above problems we will draft a memorandum to each local office advising them of the findings of your audit. As the procedures for the security of EBT cards and PINS are clearly outlined in Vol. II, MS 8010 and MS 8030, we will advise local office supervisors at their next staff meeting to go over these procedures with staff. We will advise all staff that it is imperative that the security of EBT cards and PINs must be maintained at all times. In addition, it is the responsibility of local office supervisors to insure that local office staff are trained in the proper procedures for maintaining security of EBT cards and PINs. We will send this memorandum to staff by 8/15/01.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Control And/Or Reportable Instances Of Noncompliance: (Continued)

FINDING 00-CFC-6: The Cabinet For Families And Children Should Reconcile FNS-46 Reports Before They Are Submitted To USDA

State Agency: Cabinet for Families and Children

Federal Program: CFDA 10.561–State Administrative Matching Grants for Food Stamp Program

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Reporting

Amount of Questioned Costs: \$105,965

CFC submits an FNS-46 report to the United States Department of Agriculture (USDA) each month that shows Kentucky's total food stamp benefits issuance. The FNS-46 is used to account for benefits issued during the month. The USDA relies on the issuance total from the FNS-46 to determine future issuance needs.

We tested one quarter of FNS-46 reports for accuracy, completeness, proper authorization, and timely submission to USDA and noted the following errors:

- The September 1999 food stamp benefits issuance was overstated by \$9,149.
- The October 1999 food stamp benefits issuance was overstated by \$96,816.

We also noted the monthly FNS-46 reports were not reconciled to the Daily EBT Reconciliation for the last day of the month. According to agency personnel, although attempts were made, there has not been a successful reconciliation of the two reports since the EBT system was implemented in November 1999.

If the reports are not reconciled, there is no way to determine the accuracy of the FNS-46 reports that are submitted to USDA. If the FNS-46 report is not accurate, the total food stamp benefits issued for that month are not accurate.

CFR Title 7 Section 274.1, (a) Basic issuance requirements, says, "State agencies shall establish issuance and accountability systems which ensure that coupon issuance and reconciliation activities are properly conducted and accurately reported to FNS."

CFR Title 7 Section 274.4, say, "Form FNS-46, Issuance Reconciliation Report, shall be submitted by each State agency operating an issuance system. The report shall be prepared at the level of the State agency where the actual reconciliation of the record-for-issuance and master issuance file occurs."

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Control And/Or Reportable Instances Of Noncompliance: (Continued)

FINDING 00-CFC-6: The Cabinet For Families And Children Should Reconcile FNS-46 Reports Before They Are Submitted To USDA (Continued)

CFR Title 7 Section 274.4, states, “[t]he State agency shall identify and report the number and value of all issuances which do not reconcile with the record-for-issuance and/or master issuance file. All unreconciled issuances shall be identified as specified on this reporting document.”

Recommendation

CFC should:

- Implement reconciliation procedures that ensure the completeness and accuracy of food stamp benefits issuance amounts reported to USDA;
- Submit revised FNS-46 reports for the months of September and October 1999; and, develop procedures to reconcile the FNS-46 reports to the Daily EBT Reconciliation on the last day of each month. By reconciling these reports, the agency can detect errors on the FNS-46 report before it is submitted to USDA.

Management’s Response and Corrective Action Plan

RECOMMENDATION FOR IMPROVEMENT #1.

Implement reconciliation procedures that ensure the completeness and accuracy of food stamp benefits issuance amounts reported to USDA;

RESPONSE:

Extensive automated reconciliation procedures have been implemented with the Electronic Benefit Transfer (EBT) System currently utilized statewide. Previously, the preparation of the FNS-46 report required manual calculation from various reports. There were several types of issuance systems in place, ie...over the counter issuance, mail issuance, and EBT.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Control And/Or Reportable Instances Of Noncompliance: (Continued)

FINDING 00-CFC-6: The Cabinet For Families And Children Should Reconcile FNS-46 Reports Before They Are Submitted To USDA (Continued)

Management's Response and Corrective Action Plan (Continued)

RECOMMENDATION FOR IMPROVEMENT #2.

Submit revised FNS-46 reports for the months of September and October 1999.

RESPONSE:

The revised FNS-46 Reports for September 1999 and October 1999 are in the process of being corrected and will be submitted to USDA no later than August 15th.

RECOMMENDATION FOR IMPROVEMENT # 3.

Develop procedures to reconcile the FNS-46 reports to the Daily EBT Reconciliation on the last day of each month. By reconciling these reports, the agency can detect errors on the FNS-46 report before it is submitted to USDA.

RESPONSE:

The EBT daily reconciliation is tracked thru statistical reports from KAMES, the Federal Reserve (AMA), and Deluxe. The reports issued by Deluxe are compared to issuance reports from the KAMES system. Federal Reserve (AMA) provides data from Citibank.

AMA and the FNS-46 are supposed to reflect the same issuance amount for the month. However, the difference in the AMA and the FNS-46 are the result of posting dates. When KAMES sends monthly issuance to Deluxe at Food Stamps cut-off Citibank automatically posts this amount to the AMA account. There is another report the Automated Standard Application For Payments (ASAP) which is also posted by Citibank, but it is done according to the last digit SSN for clients.

Based upon this, the FNS-46 report and the AMA report will not balance to the exact amount. USDA has set a variance limit of 1.77% because of these occurrences. The variance in our report averages between \$500,000 and \$1,000,000 which is .27% variance.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Control And/Or Reportable Instances Of Noncompliance: (Continued)

FINDING 00-CFC-7: The Cabinet For Families And Children Should Improve Access Security Controls For Manual Input Of EBT – Food Stamp Records To The EDGE System

State Agency: Cabinet for Families and Children

Federal Program: CFDA 10.561–State Administrative Matching Grants for Food Stamp Program

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Not Applicable (Internal Controls)

Amount of Questioned Costs: None

CFC did not ensure adequate security access controls were established for users of the EDGE software system used to transfer electronic benefit authorization for the food stamps program. The EDGE system is physically installed at Funds Corporation in Glendale, Wisconsin. We noted 33 user profiles with authorizations to add case numbers, issue cards, and approve benefits. This combination of authorities could be used to circumvent system controls. The Kentucky Automated Management and Eligibility System (KAMES) security administrator could not provide documentation to support the authorization granted for any of the 33 users. Additionally, it was determined that for seven of these users, this combination of access authority was no longer necessary.

CFC management established an EBT – Food Stamps Project Team (project team) to oversee the implementation of the EBT Food Stamps program throughout the Commonwealth. During implementation of the EBT - Food Stamps system, the project team determined user access profiles based on the evaluation of user needs and job functions. The Division of Family Support staff and central office staff, who had already been granted access to KAMES, were granted access to the EDGE system. The EDGE software system processes the electronic food stamp authorizations submitted from the KAMES system application. Access granted was based on profile determinations made by the project team. A list of these preferred user profiles was provided to the KAMES security administrator, who then developed and loaded those user profiles for the EDGE system. After loading the user profiles, all supporting documentation for the project team profile determinations was destroyed.

Users should only be granted the minimum access necessary to complete their jobs to ensure a strong security environment. Further, the propriety of user access to systems cannot be ensured without a properly approved system access, which should be maintained to verify proper authorization of the system access granted.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Control And/Or Reportable Instances Of Noncompliance: (Continued)

FINDING 00-CFC-7: The Cabinet For Families And Children Should Improve Access Security Controls For Manual Input Of EBT – Food Stamp Records To The EDGE System (Continued)

Recommendation

We recommend CFC management ensure adequate documentation is obtained and maintained for security access requests and authorizations. Standardized forms should be required for all system access requests. These forms can be submitted via mail, e-mail, or facsimile and should be obtained by the security administrator prior to granting any new system access. Further, a review should be performed of all current EDGE system users to ensure documentation is available to support the authorization granted for current user profile privileges, especially for those users granted sensitive profiles with update capability to the system.

Management's Response and Corrective Action Plan

Your comments include: "The Cabinet for Families and Children (CFC) did not ensure adequate security access controls were established for users of the EDGE software system used to transfer electronic benefit authorization for the Food Stamps program."

As noted in your document the following was done to ensure security access control:

"CFC management established an Electronic Benefits Transfer (EBT) – Food Stamps Project Team (project team) to oversee the implementation of the EBT Food Stamps program throughout the Commonwealth. During implementation of the EBT – Food Stamps system, the project team determined user access profiles based on the evaluation of user needs and job functions. The Division of Family Support staff and central office staff who had already been granted access to KAMES were granted access to the EDGE system. Access granted was based on profile determinations made by the project team. A list of these preferred user profiles was provided to the KAMES security administrator, who then developed and loaded those user profiles for the EDGE system."

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Control And/Or Reportable Instances Of Noncompliance: (Continued)

FINDING 00-CFC-07: The Cabinet For Families And Children Should Improve Access Security Controls For Manual Input Of EBT – Food Stamp Records To The EDGE System (Continued)

Management's Response and Corrective Action Plan (Continued)

It is our position that the EDGE system is an extension of the KAMES system because the information available on the EDGE system is generated from the KAMES system information, therefore obtainable by personnel with access to the KAMES system. The exception is the EDGE system has benefit usage information that is not on the KAMES system that is necessary for staff to assist recipients in the event they believe their account information is incorrect. It was our conclusion that any caseworker that determines eligibility for clients on KAMES and has update capabilities on KAMES needs inquiry access to the EDGE system to be able to perform their job.

We have in place a procedure for granting access to various systems. As far as the EDGE system is concerned with it being an extension of KAMES, when we receive a request for access to KAMES via a DSI-2 form we also use that as an authorization for inquiry only access to the EDGE system. A hard copy of that form is retained in the security administrator files.

Additionally you commented:

"We noted thirty-three user profiles with authorizations to add case numbers, issue cards, and approve benefits. This combination of authorities could be used to circumvent system controls."

We agree that a limited number of staff has been granted the ability to add cases, issue cards and authorize benefits. It is necessary that certain staff be able to perform these functions in order to maintain the system. Members of the Fraud group require the ability to add cases, issue cards and authorize benefits to ensure identity confidentiality of fraud investigators. Members of the KAMES staff require the ability to add cases, issue cards and authorize benefits in order to manually enter information that was rejected in the batch posting process and keep the EDGE system and the KAMES system in balance. Members of the e-Funds staff require this ability to assist our recipients as part of their Help Desk functions.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Control And/Or Reportable Instances Of Noncompliance: (Continued)

FINDING 00-CFC-7: The Cabinet For Families And Children Should Improve Access Security Controls For Manual Input Of EBT – Food Stamp Records To The EDGE System (Continued)

Management's Response and Corrective Action Plan (Continued)

The key element is the ability to authorize benefits. Benefits authorized are monitored on a daily basis by the Commonwealth reconciliation group balancing the benefit authorizations posted to the EDGE system to the benefits authorized in the KAMES system. The reconcilers are provided reports by KAMES staff and Fraud staff on a daily basis of benefit authorizations. In the event there is an out of balance condition, EDGE report (EBTDS201-1) exists to check all entries made by Administrative Terminal that would identify who made the entry.

You further commented:

"The Kentucky Automated Management & Eligibility System (KAMES) security administrator could not provide documentation to support the authorization granted for any of the thirty-three users. Additionally, it was determined that for seven of these users this combination of access authority was no longer necessary. After loading the user profiles, all supporting documentation for the project team profile determinations was destroyed."

It is true that at the time of the audit the system administrator was unable to locate the documentation from the meeting to assign user profiles and stated that the documents had been destroyed. It was discovered that this information had been misplaced during a move and has since been located and is available. In addition the system administrator has contacted management of the individuals in this group and received by e-mail verification of their need for these profiles. All staff identified as no longer needing these profiles have been removed from the profile group.

Documentation of all additions to these profiles is required of management.

To ensure the integrity of the user group with the ability to create cases, issue cards and authorize benefits, EBT (security administrator) will monitor this group by downloading EDGE reports EBTMS304-1 and EBTMS304-2 and verify that the Commonwealth staff with this access is current and documentation is on file.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Control And/Or Reportable Instances Of Noncompliance: (Continued)

FINDING 00-CFC-8: The Cabinet For Families And Children Should Establish And Enforce Medical Support Obligations For Custodial Parents

State Agency: Cabinet for Families and Children

Federal Program: CFDA 93.563 - Child Support Enforcement

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Special Tests and Provisions

Amount of Questioned Costs: None

CFC is required to secure medical support information and establish and enforce medical support obligations for all individuals eligible for services under 45 CFR 302.33.

We tested a sample of 33 child support case files for compliance and noted the following exceptions:

- Four case files did not contain evidence CFC obtained satisfactory health insurance other than Medicaid for the custodial parent; CFC also failed to petition the court or administrative authority for required health insurance.
- Ten case files did not contain evidence CFC verified that absent parents obtained medical support; and, there was no evidence CFC informed the custodial parent or Medicaid when health insurance was obtained.

CFR, Title 45, Part 303.31(b) states,

[the IV-D agency shall:] (1) Unless the custodial parent and child(ren) have satisfactory health insurance other than Medicaid, petition the court or administrative authority to include health insurance that is available to the noncustodial parent at reasonable cost in new or modified court or administrative orders for support...(5) Provide the custodial parent with information pertaining to the health insurance policy which has been secured for the dependent child(ren) pursuant to an order obtained in this section. (6) Inform the Medicaid agency when a new or modified court or administrative order for child support includes medical support and provide the information...to the Medicaid agency when the information is available. (7) If health insurance is available to the noncustodial parent at reasonable cost and has not been obtained at the time the order is entered, take steps to enforce the health insurance coverage required by the support order and provide the Medicaid agency with the information . . .

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Control And/Or Reportable Instances Of Noncompliance: (Continued)

FINDING 00-CFC-8: The Cabinet For Families And Children Should Establish And Enforce Medical Support Obligations For Custodial Parents (Continued)

Recommendation

CFC should enforce regulations and develop procedures to assure compliance with the following provisions:

- Ensure custodial parents have satisfactory health insurance other than Medicaid and petition the court or administrative authority for custodial parents who do not have satisfactory health insurance.
- Verify absent parents obtain health insurance coverage and document any reasons for not obtaining coverage; and, inform both the custodial parent and Medicaid when the absent parent has health insurance or CFC obtains health insurance.

Management's Response and Corrective Action Plan

We appreciate and thank you for the recommendation for improvement. A memo, under [the Director of the Division of Child Support's] signature will be written and distributed to all of the Contracting Officials and Area Managers statewide, reiterating the urgency of securing and enforcing medical support for the children, notifying the custodial parent and Medicaid, when health insurance is obtained. [CFC] will also stress all information pertaining to medical insurance be input into the KASES system and not files in hardcopy cases.

One of the Office of Performance Enhancement's (OPE) self-assessment forms addresses SECURING AND ENFORCING MEDICAL SUPPORT ORDERS. We will work with OPE to assure that added emphasis is given on the medical cases they are monitoring.

The Division makes every effort to ensure the caseworkers meet the timeframes and guidelines pursuant to the CFR as well as the KRS statutes.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 3 -FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Other Matters Relating To Internal Controls And/Or Compliance:

FINDING 00-CFC-9: The Cabinet For Families And Children Should Manually Reduce Food Stamp Benefits For Households That Received More Benefits Than They Were Entitled To Receive

State Agency: Cabinet for Families and Children

Federal Program: CFDA 10.561-State Administrative Matching Grants for Food Stamp Program

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Special Tests and Provisions

Amount of Questioned Costs: None

CFC is required to take collection action against a household that receives more food stamp benefits than it is entitled to receive. We tested a random sample of fifty-six claims against households cases established between July 1, 1999 and June 30, 2000 for compliance with federal regulations. Our tests indicated that 50% (or 2 out of 4) of the claims tested were not having benefits reduced to repay a claim, where benefit reduction was applicable. According to CFC, the initiation of benefit reduction must be made manually in the system by changing an "N" to a "Y" on the benefit reduction line. Once initiated, the household's benefits will automatically be reduced until the claim is paid in full or until the household stops receiving benefits.

Failure to initiate benefit reduction is not only a violation of agency policy, it reduces the likelihood that the state will recover the money. Furthermore, when there is a delay in initiating benefit reduction, collection of the claim is often suspended or terminated because the household subsequently leaves the program before the claim is repaid in full. This results in old/uncollectible receivables for claims, many of which are inactive, being carried forward for many years on the PAFS-434 Report.

The Field Services Operation Manual, Volume I, Section 1621, Food Stamp Repayment Methods, states: "If the household is currently participating, reduce the household's allotment to recover any amount not repaid through a lump sum payment in cash and/or food stamps unless a payment schedule has been negotiated with the household and the household chooses to make monthly payments to the Collections Branch."

For Administrative Error (AE) and Inadvertent Household Error (IHE) Claims, the amount to be recovered is the greater of 10% of the household's monthly allotment or \$10 per month.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 3 -FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Other Matters Relating To Internal Controls And/Or Compliance: (Continued)

FINDING 00-CFC-9: The Cabinet For Families And Children Should Manually Reduce Food Stamp Benefits For Households That Received More Benefits Than They Were Entitled To Receive (Continued)

For Intentional Program Violation (IPV) Claims, the amount to be recovered is the greater of 20% of the household's monthly entitlement or \$10 per month. The entitlement is the amount of benefits the household would receive if an IPV disqualified member were included in benefit calculation.

State regulations permit automatic benefit reduction only in IPV cases. Benefit reduction is available for AE and IHE claim types only if the recipient signs an agreement. This regulation has been changed and, as of August 1, 2001, all three claim types are subject to benefit reduction if the recipient has an active food stamps case.

Recommendation

- CFC should enforce the policies set forth in the Field Service Operations Manual regarding claim repayment through benefit reduction.
- CFC should manually reduce a household's benefits if another payment arrangement has not been made.

Management's Response and Corrective Action Plan

The Department agrees with the recommendation noted for improvement. Additionally, we recognize that claims activity has not been a priority in the Department during the last few years. We do feel that our manual material sufficiently addresses all aspects of establishing claims and the procedures that are to be followed and complies with Federal Regulations.

The corrective action found below addresses the recommendation for improvement and will demonstrate our intention that claims will become an important part of the Departments responsibilities and duties. The following corrective action procedures will be applied.

- *Effective January 2001, claims activity is an expectation on our local case workers yearly performance evaluations. They are expected to achieve a 95% timeliness standard.*

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 3 -FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Other Matters Relating To Internal Controls And/Or Compliance: (Continued)

FINDING 00-CFC-9: The Cabinet For Families And Children Should Manually Reduce Food Stamp Benefits For Households That Received More Benefits Than They Were Entitled To Receive (Continued)

Management's Response and Corrective Action Plan (Continued)

- *Effective January 2002, claims activity (monitoring/corrective action) will be added as an expectation to the Service Region Administrator (SRA) yearly evaluation form. The 95% timeliness standard will also be expected.*
- *The Department will issue correspondence and necessity for completion of claims activity in accordance with policy manual material. This will be done at least quarterly.*
- *Effective August 1, 2001, the automated claims system (KCA) has been modified so that IHE and AE claims will automatically be benefit reduced in addition to IPV.*
- *The Quality Central Claim Section will monitor claims activity monthly and will work with individual regions and/or counties to improve standards.*

FINDING 00-CFC-10: The Cabinet For Families And Children Should Maintain Adequate Supporting Documentation For The ACF-696 Report That Is Submitted To DHHS

State Agency: Cabinet for Families and Children

Federal Program: CFDA 93.575 – Child Care and Development Block Grant, and
CFDA 93.596 - Child Care Mandatory and Matching Funds of the
Child Care and Development Fund

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Reporting

Amount of Questioned Costs: None

CFC is required to submit the ACF-696 Report, Child Care Financial Status Report, for funds received through the Child Care and Development Fund. The ACF-696 is a quarterly report that summarizes CCDF program activities and grant funds by program budget unit and project code.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Other Matters Relating To Internal Controls And/Or Compliance: (Continued)

FINDING 00-CFC-10: The Cabinet For Families And Children Should Maintain Adequate Supporting Documentation For The ACF-696 Report That Is Submitted To DHHS (Continued)

We tested the ACF-696 report, for the quarter ended September 30, 2000, for accuracy and compliance with federal regulations and the instructions set forth by the Administration for Children and Families. We traced reported expenditures to the underlying transactions in MARS, using CFC's 8651 Expenditure Summary Report and MARS-MRDB reports. We noted 10 of 28 PBUs reported in the summary worksheet that is used to prepare the ACF-696 report did not agree to amounts reported in MARS by \$645,887.29. Due to lack of supporting documentation maintained by CFC, we were unable to determine the accuracy of the ACF-696 report.

The underlying accounting records should support federal reports, in accordance with 45 CFR Subtitle A § 98.67 which states, "(c) Fiscal control and accounting procedures shall be sufficient to permit: (1) Preparation of reports required by the Secretary under this subpart and under subpart H; and (2) The tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the provisions of the part."

CFC has a responsibility to ensure that reports pertaining to federal awards submitted to the awarding agency include all activity of the reporting period, are supported by the accounting records, and fairly presented in accordance with program requirements.

Recommendation

CFC should:

- Submit an amended ACF-696 report to the federal awarding agency.
- Maintain adequate supporting documentation to explain any variances between federal financial reports and accounting data used in producing those reports.
- Keep sufficient documentation to support entries made in MARS, especially for entries made to adjust accounting balances for federal reporting purposes or to support and explain any differences between the state's accounting data and reports filed with the federal government.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Other Matters Relating To Internal Controls And/Or Compliance: (Continued)

FINDING 00-CFC-10: The Cabinet For Families And Children Should Maintain Adequate Supporting Documentation For The ACF-696 Report That Is Submitted To DHHS (Continued)

Management's Response and Corrective Action Plan

We agree with the findings regarding the 9/30/00 ACF-696 summary worksheet not agreeing to the amounts reported in MARS in 10 of 28 PBUs.

Beginning July 1, 1999, the state implemented the MARS accounting system and as MARS was implemented not all associated operating tools were completely functional with the initial implementation. SEAGATE, the financial reports tool, was not operational for the first quarter of fiscal year 2000. With this being the case, CFC had no way of tracking the posting of expenditures in MARS. When financial reports were made available, adjustments were needed to correct expenditure postings that occurred in the first quarter of fiscal year 2000. As adjustments were made, the necessary back-up documentation was not maintained. As time and our "on-the-job-training" have progressed, we have made program changes and procedures, which should correct the differences in ACF-696 report and MARS.

FINDING 00-CFC-11: The Division Of Child Support Should Monitor Caseworkers To Ensure That Efforts Are Being Made To Establish And Enforce Support Obligations

State Agency: Cabinet for Families and Children
Federal Program: CFDA 93.563 – Child Support Enforcement
Federal Agency: U.S. Department of Health and Human Services
Pass-Through Agency: Not Applicable
Compliance Area: Special Tests and Provisions
Amount of Questioned Costs: None

We reviewed thirty-three child support cases using the KASES system. We examined cases to determine if the Division of Child Support is making efforts to locate noncustodial parents, establish paternity, collect support, and enforce support orders. We noted the following exceptions:

- A support order had not been established for case # 974961. The noncustodial parent was put on probation in June 2000 after being released from incarceration, but caseworkers did not contact a parole officer to initiate legal action.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Other Matters Relating To Internal Controls And/Or Compliance: (Continued)

FINDING 00-CFC-11: The Division Of Child Support Should Monitor Caseworkers To Ensure That Efforts Are Being Made To Establish And Enforce Support Obligations (Continued)

- CFC is owed \$9,448.12 in arrearages for case #340832; however, no action was taken to collect the money.
- Case #193499 had not been referred to location, nor has paternity been established. Interstate status was assigned in March 2000, but no action has been taken since that date.

When caseworkers fail to process child support cases, the Division of Child Support is not able to fulfill its objectives which are to: (1) enforce support obligations owed by non-custodial parents, (2) locate absent parents, (3) establish paternity, and (4) obtain child and spousal support.

In accordance with 45CFR 303.3 (b(3)), the Division of Child Support should “within no more than 75 calendar days of determining that location is necessary, access all appropriate location sources . . .”

According to 45CFR 303.4(d), “Within ninety (90) calendar days of locating the alleged father or noncustodial parent, regardless of whether paternity has been established, establish an order for support or complete service of process necessary to commence proceedings to establish a support order . . .” Further, 45 CFR 303.6 (c(2)) states that “enforcement action taken if process is served, within no later than 60 calendar days of identifying a delinquency or other support-related non-compliance with the order, or the location of the noncustodial parent, whichever occurs later.” It does not appear these time requirements are being adhered to, from the cases we examined.

Recommendation

We recommend the Division of Child Support monitor caseworkers to ensure that efforts are being made to locate noncustodial parents, establish paternity, and establish and enforce support obligations, in accordance with 45CFR.

**CABINET FOR FAMILIES AND CHILDREN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Other Matters Relating To Internal Controls And/Or Compliance: (Continued)

FINDING 00-CFC-11: The Division Of Child Support Should Monitor Caseworkers To Ensure That Efforts Are Being Made To Establish And Enforce Support Obligations (Continued)

Management's Response and Corrective Action Plan

Case #974961: Case was closed by the Muhlenburg County Attorney's Office after reviewing case for the 3-year closure. Client was contacted and had no additional information concerning the non-custodial parent's location. Case closed on June 11, 2001.

Case #340832: Contracting Official has been notified requesting a status update on this case. This is an arrearage only case and child's date of birth was September 21, 1967. Awaiting response from Contracting Official.

Case #193499: Case was closed by the Todd County Attorney's Office after unsuccessful attempts were made to locate the client. Legal action to establish a support order could not be taken without the client.

Case #340832: Case was reviewed by the Ohio County Attorney's Office and determined case closure was necessary for the following reason: The child's date of birth was 1967 and pursuant to Kentucky law, there is a statute of limitations on collecting child support arrearages 15 years after the youngest child turns 18. Case has been closed.

Although we appreciate and thank you for the recommendation for improvement, the Cabinet already has in place a monitoring process to ensure appropriate action is taken on a case in a timely manner. The Office of Performance Enhancement (OPE) monitors the work of all of the child support caseworkers statewide on a routine basis. Also, the Regional Child Support Office Manager monitors and conducts spot checks of worker's cases for accuracy and quality of work. The Division makes every effort to ensure the caseworkers meet the timeframes and guidelines pursuant to the CFR as well as the KRS Statutes.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**CABINET FOR FAMILIES AND CHILDREN
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2000**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Reportable Conditions</u>					
<i>(1) Audit findings that have been fully corrected:</i>					
FY99	99-CFC-2	The Cabinet For Families And Children Should Maintain Accurate And Complete Documentation To Support Information Reported In The Commonwealth's Financial Statements	N/A	\$ 0	Resolved during FY 2000
FY99	99-CFC-3	The Division of Child Support Enforcement Should Retain Monthly Trial Balance Reports To Support The Accounts Receivable Balances Reported In The Financial Statements	N/A	0	Resolved during FY 2000
FY99	99-CFC-33	The Cabinet For Families And Children Should Reconcile All Payments That Require Adjustments	93.596	3,839	The questioned costs resulted from CFC not reconciling KCCMS to STARS. After the implementation of MARS, CFC began reconciling KCCMS and MARS daily. This finding and the questioned costs are resolved.
FY 98	98-CFC-25	The Cabinet For Families And Children Should Maintain Adequate Records To Ensure Compliance With Health And Safety Requirements	93.596	0	Resolved during FY 2000
FY 98	98-CFC-28	The Department For Social Insurance Should Implement Procedures To Ensure Adequate Supporting Documentation Is Maintained	93.658	\$ 4,325	CFC reimbursed the federal government for \$17,288 during FY 2000. This finding is resolved.
FY 99				12,963	
FY 00				(17,288)	
Total Questioned Costs				\$ 0	

**CABINET FOR FAMILIES AND CHILDREN
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Reportable Conditions</u> (Continued)					
<i>(1) Audit findings that have been fully corrected (Continued):</i>					
FY 97	97-CFC-36	The Department For Social Insurance Should Implement Procedures To Ensure Adequate Supporting Documentation Is Maintained	93.658	\$ 0	The unresolved issues of this finding were made part of 98-CFC-28, which has been resolved. See previous comment.
FY 97	97-CFC-40	The Division Of Disability Determinations Should Implement A Security Policy	N/A	\$ 0	Due to improvements, this finding was downgraded to an other matter finding in FY 1999. The finding is considered resolved for FY 2000.
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY99	99-CFC-31	The Cabinet For Families And Children Should Strengthen Controls In Preparing The Schedule of Expenditures of Federal Awards	N/A	0	CFC did not reconcile expenditures to FAC 2210; grant expenditures were charged to incorrect CFDA numbers; and, EBT distributions were not reported on the agency's FFA 3 Noncash Schedule.
FY99 FY 00	99-CFC-32	The Cabinet For Families And Children Should Reimburse The U.S. Department For Health And Human Services For Improper Payments	93.596	\$105,421 (105,421)	CFC reimbursed the federal government for the questioned costs; however, CFC still does not cross-reference expenditure documents to the original invoice when more than one expenditure document is prepared.
Total Questioned Costs				<u>\$ 0</u>	

**CABINET FOR FAMILIES AND CHILDREN
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Reportable Conditions</u> (Continued)					
(2) <i>Audit findings not corrected or partially corrected: (Continued:</i>					
FY99	99-CFC-35	The Department For Disability Determination Services Should	N/A	\$0	This finding was reported in FY 1997. In FY 1998, the finding was not corrected. In FY 1999, the corrective action taken was significantly different from the corrective action previously reported and a new finding and corrective action plan were reported, 99- CFC-35. The agency has made significant progress toward complying with audit recommendations. We have downgraded the finding status to a verbal comment.
FY 97	97-CFC-42	Improve Program Modification Procedures			
FY 98	98-CFC-18	The Cabinet For Families And Children Should Improve Efforts To Enforce The Policies In Relation To The State Administrative Matching Grants For The Food Stamps Program	10.561	\$0	Twenty-nine of fifty-six claims were not established within six months of the discovery date. Effective January 2001, case workers will be evaluated on claims establishment. They will be expected to achieve a 95% timeliness standard.

**CABINET FOR FAMILIES AND CHILDREN
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Reportable Conditions</u> (Continued)					
(3) <i>Audit findings not corrected or partially corrected: (Continued)</i>					
FY 98	98-CFC-21	The Cabinet For Families And Children Should Integrate Systems To Improve The Claims Process For The TANF Program	93.558	\$ 0	In response to prior audit recommendations, CFC integrated the KCA, KCL, and KAMES computer systems. CFC also worked with GOT and OTS to automate the claim process. However, during the FY 2000 audit, we noted numerous exceptions with claims establishment. Beginning in January 2001, claims management will be criteria on caseworkers yearly performance evaluations. They are expected to achieve a 95% timeliness standard. The unresolved issues of finding 97-CFC-33 were made part of 98-CFC-21. 97-CFC-33 had unresolved questioned costs.
FY 97				\$ 23,175	
Total Questioned Costs				<u>\$ 23,175</u>	

**CABINET FOR FAMILIES AND CHILDREN
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Reportable Conditions (Continued)</u>					
(2) <i>Audit findings not corrected or partially corrected: (Continued)</i>					
FY 98	98-CFC-24	The Cabinet For Families And Children Should Maintain All Billing And Eligibility Documentation To Support Payments To Families Receiving Assistance From The Child Care And Development Fund	93.596	\$ 0	Our testing indicated that numerous case files did not contain adequate information to support recipient eligibility. The agency has issued a new handbook for service agents and recently conducted training on case management for supervisory staff.
FY 99				1,847	
				<u>\$ 1,847</u>	
		Total Questioned Costs		<u>\$ 1,847</u>	
FY 98	98-CFC-26	The Cabinet For Families And Children Should Ensure That Complete Records Are Maintained For TANF Recipients	93.558	\$ 0	We noted numerous exceptions with the claims process. Beginning in January 2001, claims management is a new expectation on caseworkers yearly performance evaluations. Caseworkers are expected to achieve a 95% timeliness standard. The unresolved issues of finding 97-CFC-34 were made part of 98-CFC-26. 97-CFC-34 had unresolved questioned costs.
FY 97				1,290	
				<u>\$ 1,290</u>	
		Total Questioned Costs		<u>\$ 1,290</u>	
FY 98	98-CFC-27	The Cabinet For Families And Children Should Maintain Records To Support Payments To Participants In The Kentucky Works Program	93.558	\$ 0	During FY2000, we noted missing case files and documentation. This problem will be discussed at leadership meetings and there is a possibility case file management will be added to evaluations. The unresolved issues of finding 97-CFC-35 were made part of 98-CFC-27. 97-CFC-35 had unresolved questioned costs.
FY 97				777	
				<u>\$ 777</u>	
		Total Questioned Costs		<u>\$ 777</u>	

**CABINET FOR FAMILIES AND CHILDREN
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Reportable Conditions</u> (Continued)					
FY 98	98-CFC-31	The Division Of Child Care Should Consistently Follow Logical Security Procedures For The Kentucky Child Care Management System	N/A	\$ 0	While improvements were made in this area during FY 2000, some issues were not resolved.
(3) Corrective action taken is significantly different from corrective action previously reported:					
No findings for this section.					
(4) Audit finding is no longer valid and does not warrant further action:					
FY99	99-CFC-34	The Cabinet For Families And Children's Division of Child Care Should Implement Improved Application System Controls For KCCMS	93.596	53,669	Application system control weaknesses have been corrected by MARS implementation. CFC obtaining adequate documentation resolved the questioned costs.
FY 98	98-CFC-17	The Cabinet For Families And Children Should Submit Federal Reports In A Timely Manner	10.561	0	This finding is no longer valid due to the new Electronic Benefits Transfer system.
FY 98	98-CFC-29	The Cabinet For Families And Children Should Implement Adequate Procedures To Ensure The Accuracy And Completeness Of KCCMS Generated Interface Files And Check Tape	93.596	0	The unresolved issues of this finding were made part of 99-CFC-34.
FY 98	98-CFC-32	The Division Of Child Care Should Complete The Development Of A Formal Disaster Recovery Plan	N/A	0	Due to improvements, this finding was downgraded to an other matter finding in FY 1999. The finding is also an other matter finding for FY 2000. This finding is no longer required to be reported under <i>Government Auditing Standards</i> and OMB Circular A-133.

**CABINET FOR FAMILIES AND CHILDREN
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Reportable Conditions</u> (Continued)					
<i>(4) Audit finding is no longer valid and does not warrant further action: (Continued)</i>					
FY 97	97-CFC-33	Discovery And Collection Of Overpayments Of TANF Funds Should Be Identified And Pursued Promptly To Maximize Recovery	93.558	\$ 23,175	The unresolved issues of this finding were made part of 98-CFC-21.
FY 97	97-CFC-34	The Department For Social Insurance Should Implement Procedures To Ensure Adequate Documentation Exists For Transportation Payments To Participants	93.558	1,290	The unresolved issues of this finding were made part of 98-CFC-26.
FY 97	97-CFC-35	The Department For Social Insurance Should Implement Procedures To Ensure Adequate Supporting Documentation Is Maintained	93.558	777	The unresolved issues of this finding were made part of 98-CFC-27.
<u>Material Weaknesses/Noncompliances</u>					
<i>(1) Audit findings that have been fully corrected:</i>					
FY 99	99-CFC-42	The Cabinet For Families And Children Should Monitor Subrecipients Of TANF Funds In Accordance With OMB Circular A-133	93.558	0	Resolved during FY 2000.
FY 98	98-CFC-40	The Cabinet For Families And Children Should Adhere To Established System Development Life Cycle Controls For Development And Implementation Of New Systems	93.575 and 93.576	3,023,137	CFC has recouped overpayments; no further action taken.
FY 00				(3,023,137)	
Total Questioned Costs				<u>\$ 0</u>	

(2) Audit findings not corrected or partially corrected:

No findings for this section.

(3) Corrective action taken is significantly different from corrective action previously reported:

No findings for this section.

**CABINET FOR FAMILIES AND CHILDREN
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Material Weaknesses/Noncompliances</u>					
<i>(4) Audit finding is no longer valid and does not warrant further action: (Continued)</i>					
FY 99	99-CFC-43	The Cabinet For Families And Children Should Establish Specific Written Policies And Procedures To Ensure That Proper Documentation From Subrecipients Is Submitted To The Agency	93.596	\$ 13,014	This finding does not warrant further action; the mini-grant program was discontinued during FY 2000 and questioned costs are not expected to be resolved.
FY 98	98-CFC-39	The Cabinet For Families And Children Should Monitor Payment Requests Submitted By Subrecipients To Ensure That Grant Monies Are Spent In Accordance With Contract Provisions	93.575 and 93.596	5,240,535	The mini-grant program was discontinued during FY 2000 and questioned costs are not expected to be resolved. See finding 99-CFC-43.
FY 97	97-CFC-31	Sufficient Supporting Documentation Should Be Maintained For Child Care Development Expenditures	93.575	49,214	The mini-grant program was discontinued during FY 2000 and questioned costs are not expected to be resolved. See findings 99-CFC-43 and 98-CFC-39.

Other Matters

(1) Audit findings that have been fully corrected:

FY 99	99-CFC-3	The Cabinet For Families And Children Should Maintain Documentation To Support Supplemental Payments To Employees	N/A	0	Resolved during FY 2000.
FY 99	99-CFC-4	The Cabinet For Families And Children Should Retain Cost Distribution Reports To Support Time Charges To Its Federal Programs	N/A	0	Resolved during FY 2000.

**CABINET FOR FAMILIES AND CHILDREN
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Other Matters (Continued)</u>					
<i>(1) Audit findings that have been fully corrected: (Continued)</i>					
FY 99	99-CFC-5	The Cabinet For Families And Children Should Adhere To FAC's Policy For Coding Pre-Audit Expenditures	N/A	\$0	Resolved during FY 2000.
FY 99	99-CFC-6	The Cabinet For Families And Children Should Require An Accountant's Signature On All Expenditure Documents Prepared For The CCDF Program	N/A	0	Resolved during FY 2000.
FY 98	98-CFC-21	The Division of Disability Determinations Should Complete Development Of A Formal, Documented Disaster Recovery Plan	96.001	0	Resolved during FY 2000.
FY 98	98-CFC-31	The Cabinet For Families And Children Should Review Policies And Procedures For The Child Care Program Of The Child Care And Development Fund	93.596	0	Resolved during FY 2000.
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY 98	98-CFC-26	The Cabinet for Families And Children Should Implement Measures For Timely Audit Reports In Relation To Low Income Home Energy Assistance Branch	93.568	0	During FY 2000, three audits still had not been received by the due date; and, the subrecipients made no request for extension.
<i>(3) Corrective action taken is significantly different from corrective action previously reported:</i>					
No findings for this section.					
<i>(4) Audit finding is no longer valid and does not warrant further action:</i>					
No findings for this section.					

